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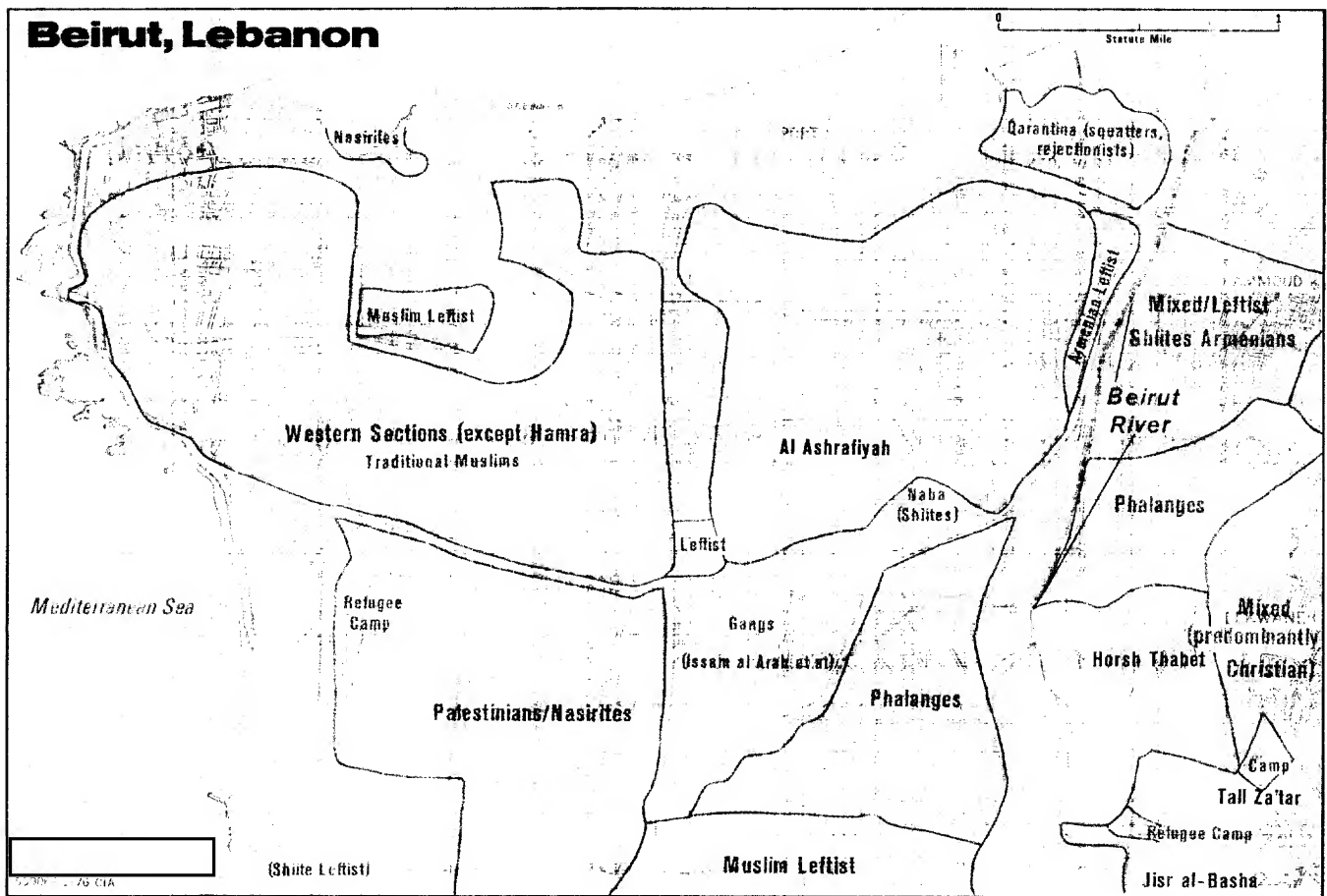
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LEBANON

Heavy fighting erupted yesterday in almost all of Beirut's suburbs, following the collapse of negotiations to end the Christian blockade of two Palestinian refugee camps. Sustained clashes could soon spread to central Beirut and the hotel area.

If the Christians do not lift their blockade, Fatah and Saiqa fedayeen units may enter the battle in force for the first time. For political reasons, Palestinian leaders are reluctant to be drawn into the fighting, but they consider on the other hand that they cannot bow to the Phalangists' demands or permit the Christian militias to prohibit access to the camps.

The major fedayeen groups could, within days, commit as many as 5,000 troops to the fighting in Beirut. This would upset the rough balance of Muslim and Christian military strength that has prevailed over the past several months. The balance could not be redressed by involvement of the army, as the number of the army troops who are still available for security duty is inferior to the number of Palestinians.

Palestinian forces have concentrated on heavy shelling from Tall Zatar camp into adjoining Christian areas, and on attacking the predominantly Christian district of Horsh Thabet. Less intense clashes occurred yesterday throughout the Christian and Muslim neighborhoods on the east side of Beirut River.

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[REDACTED] An adviser to President Franjiyah confirmed to a US official this week that the Christians' position has hardened in private negotiations as well as in their public stands.

The adviser claimed, however, that the next move is up to the Lebanese Muslims and the Syrians. He alleged that Karami has been unable to secure general

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Muslim backing for a list of specific reform proposals that he promised Franjiyah, and that Damascus is refusing to accept a Christian proposal that any comprehensive agreement be guaranteed by an international police force including Saudis and Kuwaitis as well as Syrians.

The deadlock in negotiations and the return of heavy fighting have brought normal political activity to a halt. The cabinet failed to hold its weekly meeting yesterday, and Karami's "higher coordination committee"—the only institution that has regularly brought leaders of the warring factions together—was boycotted by leftists and Palestinians protesting the Christian blockade.

Syrian Prime Minister Khaddam reacted on Tuesday to calls by ultraconservative Lebanese for the partition of Lebanon by threatening that Syria will annex the country if an attempt is made to divide it into legally separate Christian and Muslim states.

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ITALY

The resignation of the government yesterday presents the country's party leaders with basic political choices. Another shuffling of cabinet portfolios would be only a temporary measure. An early parliamentary election may be the only way out.

The Socialist Party brought about Prime Minister Moro's resignation by withdrawing its support in parliament. The Socialist decision came after months of analysis led Socialist leaders to conclude that their party must take the initiative or eventually risk its survival as a separate political party.

The Socialists concluded that any new partnership with the Christian Democrats must be based on two conditions:

--that the Christian Democrats agree to programs that would appeal to the leftist voters the Socialist want to capture;

--that any new government consult more openly and formally with the Communists so that they cannot use their opposition status so effectively in electoral competition with the Socialists.

The latter condition—aimed as much against the Communists as the Christian Democrats—is likely to be the major stumbling block to any new agreement. Had the Socialists waited until after the Christian Democratic congress scheduled for March, the latter might have found a way to compromise on the issue. As of now, however, the Christian Democrats are deeply divided over the wisdom of openly qualifying their opposition to the Communists. A majority of Christian Democrats appear to feel that dealing with the Communists more openly runs the risk of sliding into broader and irreversible collaboration with them eventually.

For their part, the Communists do not relish the prospect of a confrontation now among the governing parties. The Communists saw their interests served best by Moro's continuation in office. That gave them the opportunity to work discreetly in parliament to further Communist leader Berlinguer's aim of an eventual rapprochement with the Christian Democrats, while maintaining Communist credentials as an opposition party.

President Leone has the option of refusing to accept Moro's resignation or of insisting on a parliamentary debate followed by a vote of confidence. The President, for example, refused to accept former prime minister Rumor's resignation in 1974,

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because Leone thought the political and economic situation too precarious to permit a government collapse. Rumor eventually succeeded in patching up the feud. Leone has a similar view of the current situation, but he will probably conclude that the differences that led the Socialists to abandon the government are deeper in this instance.



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TURKEY

Pressure may be building toward a parliamentary showdown between Prime Minister Demirel's shaky coalition government and the opposition that could affect the pace of the negotiations on the US bases and a Cyprus settlement.

Opposition leader Ecevit, who appears to be confident that his Republican People's Party can win the next parliamentary election outright, seems to be laying the groundwork for a campaign to undermine Demirel's coalition and precipitate a government crisis that would probably lead to early elections. Ecevit has already applied pressure by:

- asserting that the government lacks a working majority in parliament;
- fanning rumors about internal coalition problems;
- challenging Demirel to join him in a coalition to prepare for early elections;
- canvassing parliament for votes to unseat Demirel;
- attacking the government's inaction on a broad range of problems.

These moves appear to be only preparatory to a direct attack on the government in the National Assembly.

Ecevit may have singled out the government's 1976 budget bill—which must be passed by March 1—for a test case. He needs to attract only 11 votes from independents and splinter party deputies to defeat the bill.

Ecevit's apparent belief that circumstances favor his moving at this time is no doubt colored by the continuing instability within the government coalition. Demirel's most troublesome coalition partner, National Salvation Party leader Erbakan, remains agitated over the Prime Minister's decision to vote for Ecevit's candidate for speaker of the lower house of parliament. In keeping with his history of obstructionist tactics in the cabinet, Erbakan directed a party spokesman to announce last week that the Salvationists would "tolerate" the coalition another month and then reconsider their participation.

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In recent public statements, Demirel seems to be trying to give the impression that he is game for a fight. There remains, however, the possibility that the Prime Minister—beset by problems on all sides—could be persuaded by a sustained attack from Ecevit to view early elections as a way out.

Ecevit will have a difficult time convincing a majority in the National Assembly to approve early elections. Even members of his own party are reluctant to incur the expense of a campaign and risk losing their seat before elections become mandatory in 1977.

Even if unsuccessful, however, a frontal attack by Ecevit on the government would seem likely to make Demirel even more immobile on major issues than he has been in recent months. If successful, such a move could play havoc with attempts to resolve the problems of Cyprus and the US bases in Turkey by bringing in a caretaker government that would probably hesitate to make major decisions.

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CUBA-GUYANA-ANGOLA

Havana may be using Georgetown, Guyana, as a secret shuttle stop for its military airlift to Angola. A local civil air official has told the US embassy in Georgetown that civil air flight logs at Georgetown's Timehri airport show a total of five Cuban flights to Africa since December 21. The official said the five flights involved ten aircraft, most if not all IL-18s, rather than the Bristol Britannia aircraft we have been observing on other legs of the Cuban airlift. The local Texaco manager, however, who claims he controls the only refueling facilities at the airport, told the embassy on January 5 that no Cuban flights to Africa had been refueled since December 22.



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It is possible that the Texaco official's records list the Cuban aircraft as being supplements to the regular weekly flights, reflecting false Cuban declarations designed to hide the fact that they were actually part of the troop airlift. It is also possible that the official's records show fuel sales to the government of Guyana or some other entity which then performs the actual refueling of the Cuban aircraft.



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GREECE

The conference of Balkan countries formally proposed by Greek Prime Minister Caramanlis last August will probably take place in Athens later this month at the "expert" level to examine the possibilities for greater inter-Balkan cooperation in the areas of trade, communications, energy, and culture.

The Greek government says its primary aim in sponsoring the conference is to contribute to an improvement in relations in the region in accord with the spirit of the European Security Conference in Helsinki last summer. Greek Foreign Ministry officials have emphasized that no political connotations should be attached to the Greek initiative and that it does not portend a shift in Greece's traditional pro-Western orientation. Caramanlis' primary motivation appears to be his desire to secure the support or at least neutrality of his communist neighbors to the north in the event Greece's relations with Turkey deteriorate further. He was probably also motivated by a desire to preempt any similar initiative by the Turks.

Caramanlis first broached the idea of such a conference during his visits to Yugoslavia, Bulgaria, and Romania last spring and summer and followed this up with formal invitations to those countries as well as to Albania and Turkey on August 20. Yugoslavia, Bulgaria, and Romania accepted while Albania declined. Suspicious of Greek motives and worried about a negative impact on the internal political scene, the Turkish government held off until late December before accepting the invitation. Ankara's delayed positive response appears to have resulted from the Greek and Turkish foreign ministers' agreement in Brussels last month to make a sincere effort to settle their differences.

For their part, the communist states bring a legacy of mutual suspicions, and in some cases outright irredentism, to the conference. Albania's refusal to attend stems from a blanket distrust of its neighbors' motives. Yugoslavia suspects that Bulgaria will serve as a Soviet stalking horse at the conference. Romania may well be the one communist state most interested in rapidly advancing regional cooperation as one means of weakening its reliance on the Soviet alliance system.

All the participating countries have in principle accepted January 26 as the date for convening the conference.

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ICELAND-UK

A new ramming incident will make it difficult for Prime Minister Hallgrimsson to continue his low-key approach to the fisheries dispute.

The Icelandic Coast Guard announced one of its cutters was rammed yesterday by a British warship about 35 miles offshore. No injuries resulted. The ramming was claimed to be a deliberate attempt to damage the patrol boat, since there were no trawlers in the area.

Until now Hallgrimsson has maintained a moderate approach to the issue. He has given no indication, however, that he is prepared to resume negotiations, even though London has made known its willingness to reduce the demand from 110,000 to 90,000 tons. Hallgrimsson and most other noncommunists have avoided closely associating the fishing dispute with the presence of the US-manned Icelandic Defense Force or NATO membership. He has also ruled out for the present a break in relations with the UK.

This new incident will make it more difficult to resist growing pressure for government action against the UK. Hallgrimsson may decide to raise the issue again in the UN Security Council or to recall his ambassador from the UK. A full break with London now, however, is unlikely.

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Figure 1

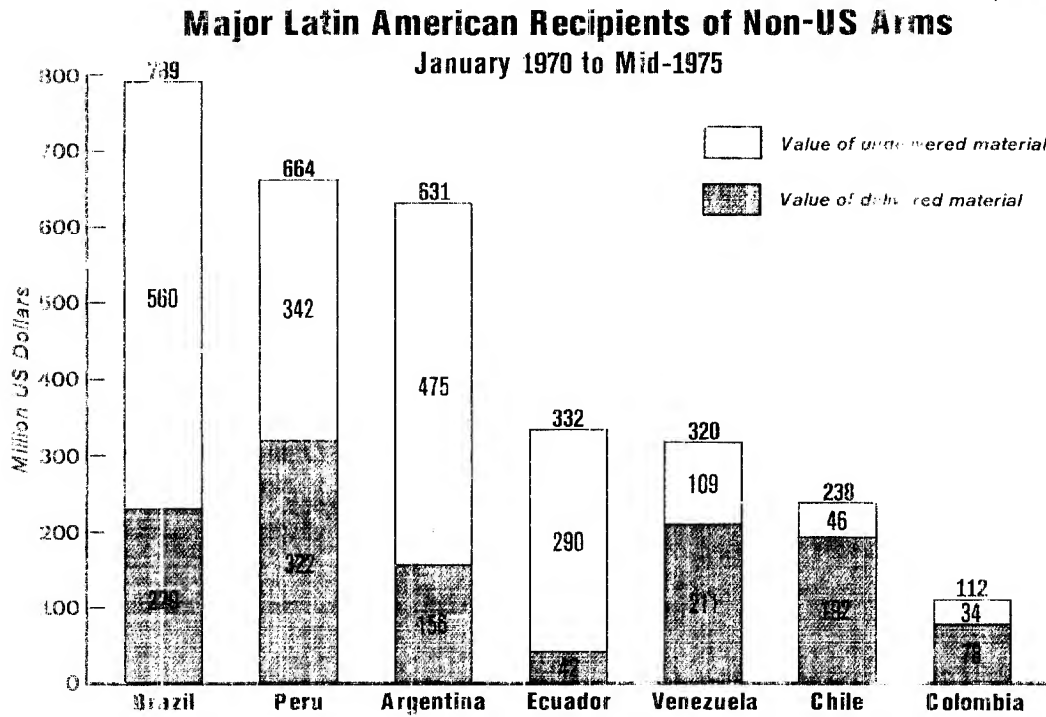
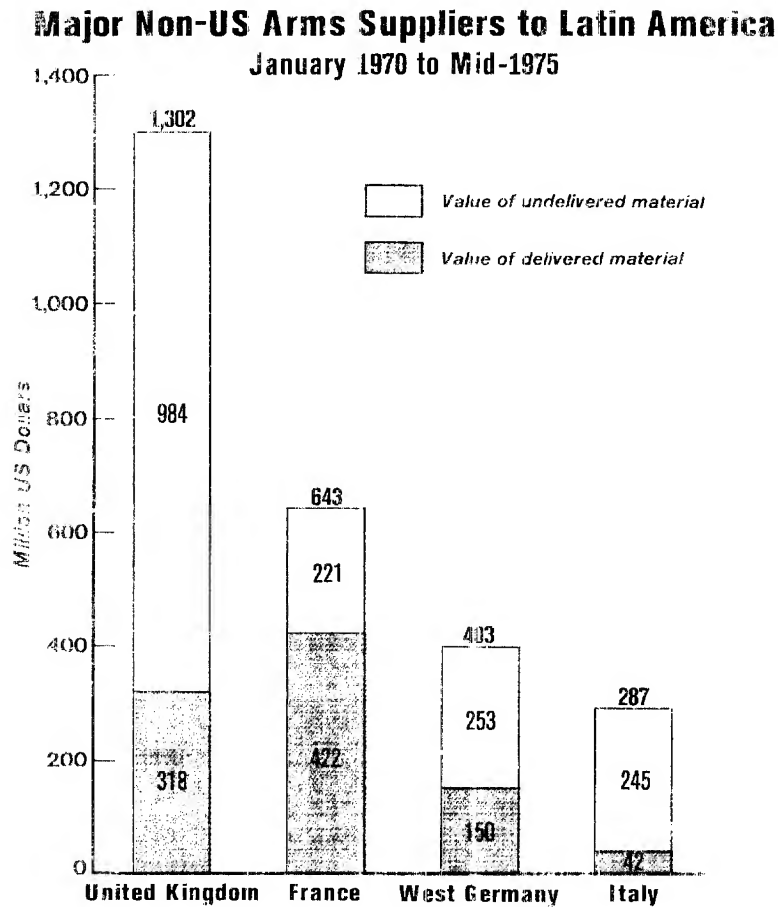


Figure 2



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ANNEX**LATIN AMERICAN ARMS PURCHASES**

Between 1950 and 1970, the US supplied approximately two thirds of the \$1.8 billion total value of arms, military training, and support delivered to Latin America, excluding Cuba. In the late 1960s this relationship began to change.

The desire of Latin American states to upgrade and modernize their inventories conflicted with policy restrictions on the amount and type of materiel the US would provide. In addition, some of the equipment could not be provided by the US, either because it was not available in US surplus stocks or was considered too sophisticated or too expensive for Latin American needs. Consequently the Latin Americans began to seek other sources of equipment. Between January 1, 1970, and July 1, 1975, non-US suppliers provided more than 70 percent of the \$1.8 billion of military assistance delivered to Latin America. An additional \$1.9 billion had been contracted for but was not yet delivered. The US undelivered contract value as of July 1, 1975, totaled about \$400 million.

Seven Latin American recipients—Brazil, Peru, Argentina, Ecuador, Venezuela, Chile, and Colombia—accounted for most of the non-US arms transaction during this period (Figure 1). Although Peru is the leader in the value of arms actually received, deliveries under existing contracts will probably make Brazil the largest recipient within the next few years.

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The nearly \$1.9 billion in non-US arms still to be delivered to these seven Latin American countries is over 50 percent greater than the value of non-US equipment received between January 1, 1970, and mid-1975. For all major recipients, except Ecuador and Chile, at least 77 percent of this sum will be used for expensive naval ships and associated equipment. Deliveries to Ecuador will be balanced among the armed services. Chile has not purchased major military hardware since the coup in late 1973, and deliveries under prior contracts are almost complete.

Four West European major suppliers—the UK, France, West Germany, and Italy—provide the largest share of the non-US arms for the seven major Latin American recipients. Almost all transactions have been sales under long-term credit as opposed to grant aid. France has delivered the most materiel through mid-1975, but, with continued delivery of costly naval ships, the UK will overtake the French. Although the large dollar value of assistance makes Italy one of the four major suppliers, almost 70 percent of Italian sales between 1970 and mid-1975 were made to Peru. No other major supplier has extended more than 38

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percent of its assistance to any one Latin American nation. Less than 10 percent of Latin America's foreign arms purchases have come from countries outside of Western Europe and the US. Canada, Israel, and Brazil account for most of that total.

The desire of some of the Latin American countries to upgrade and modernize their inventories is best reflected in the types of equipment acquired [redacted]

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[redacted] Purchases include some of the more sophisticated materiel currently available on the world market. This is especially evident in the acquisitions of major naval warships, with each major recipient buying at least two submarines. In addition, all but two of the major surface ships—the Almirante Grau and Tre Kroner, purchased by Peru and Chile, respectively—are new construction. Equipment for the air force is the second-largest category of purchases, with each major recipient buying at least 10 modern jet fighters.

France is the leading supplier of major ground materiel.

[redacted] the only major items of ground equipment provided by nations other than France are artillery pieces from Italy and three minor suppliers, four 155-mm. self-propelled howitzers from Italy, Tigercat SAMs from the UK, and Cobra antitank missiles and UR-416 armored personnel carriers from West Germany. Italy's 1973 sale of four Alpino-class destroyer escorts to Peru broke the UK's virtual monopoly on the supply of newly built major surface warships. West Germany has matched the UK in the number of submarines and patrol boats provided. The greatest diversity of equipment appears in the supply of aircraft. France, the UK, Italy, and Canada have supplied the fighter aircraft, and nine countries are supplying transport aircraft.

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Latin American countries view themselves as modern nation states and have actively sought arms reflecting this status. This has been and will remain the prime motivating factors behind their acquisition of sophisticated weapons. Naval and air equipment continues to be the subject of current materiel negotiations. Although regional arms limitation proposals have been discussed since 1958, no agreement is anticipated.

Because Latin America has been remarkably free of major military conflicts, Latin countries as a whole have consistently spent a smaller proportion of their gross national product on defense than have other developing nations. Between 1966 and 1972, the average annual outlay in Latin America was about 2 percent; since then it has dropped to less than 1.5 percent. Average expenditures of all Third World nations were more than 5.5 percent, and the figure for the Middle East was almost 12 percent.

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Latin American military budgets typically allow 10 to 15 percent of total expenditures for procurement of foreign arms. By spreading delivery and repayment over a number of years, countries have made large arms purchases without seriously straining their balance of payments. Although the annual payment on the military debt has increased to some \$300 million to \$400 million during the past three years, Latin American countries should be able to meet current repayment schedules without jeopardizing economic development.

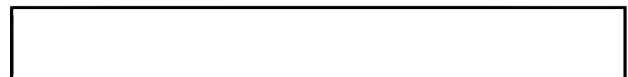
Because arms spending has not imposed an excessive drain on Latin economies and the Latin American arms market has been vigorously exploited by West European nations, we believe that the pattern displayed since 1970 will continue to characterize Latin American arms acquisitions.

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